

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-----------------------------------|---|------------|
| ELECTRONIC INVESTIGATION OF THE |) | |
| IMPACT OF THE TAX CUTS AND JOB |) | CASE NO |
| ACT ON THE RATES OF DELTA NATURAL |) | 2018-00040 |
| GAS, INC. |) | |

COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO DELTA NATURAL GAS, INC.

Delta Natural Gas, Inc. ("Delta"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before March 27, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Delta shall make timely amendment to any prior response if it obtains information that indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Delta fails or refuses

to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, Delta shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Provide Delta's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2017.

2. Provide Delta's Net Investment Rate Base and Capital Structure for the calendar year ending December 31, 2017. Provide all supporting work papers, assumptions, and calculations.

3. Using the financial information provided in the responses to Items 1 and 2, calculate:

a. Delta's actual Return on Equity (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017.

b. Delta's average cost of long-term debt for the calendar year ending December 31, 2017.

c. Delta's average cost of short-term debt for the calendar year ending December 31, 2017.

d. Provide all supporting work papers, assumptions, and calculations.

4. Using the Capital Structure provided in the response to Item 1 and the return/interest rates calculated in the response to Item 3, fill out the table below:

| Component of Capitalization | Per Books 12/31/17 | Ratios | Actual Rates | Average Weighted Cost |
|-----------------------------|-----------------------|--------|--------------|-----------------------|
| Short-Term Debt | | | | |
| Long-Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | | | | |
| Total Capitalization | \$ - | 0.000% | | 0.0000% |

5. Refer to the Direct Testimony of Matthew D. Wesolosky (“Wesolosky Testimony”), Schedule MDW-2, Tax Expense Impact.

a. Using the table below, provide the calculation of the gross revenue conversion factor (“GRCF”) including a 35 percent Federal Income Tax (“FIT”) rate.

| Line # | Description | Rates | State | Federal |
|--------|--|-------|-------------|-------------|
| 1 | Operating Revenue | | 100.000000% | 100.000000% |
| 2 | Less: Uncollectible Expense | | | |
| 3 | Less: PSC Assessment | | | |
| 4 | Less: Production Activities Deduction State | | | |
| 5 | | | | |
| 6 | Income before State Income Tax | | 100.000000% | 100.000000% |
| 7 | State Income Tax | | 0.000000% | 0.000000% |
| 8 | | | | |
| 9 | Income before Federal Income Tax | | | 100.000000% |
| 10 | Federal Income Tax | | | 0.000000% |
| 11 | | | | |
| 12 | Operating Income Percentage (Line 9 - Line 10) | | | 100.000000% |
| 13 | | | | |
| 14 | Gross Revenue Conversion FACTOR (Line 1 / Line 12) | | | 1.000000 |
| 15 | | | | |
| 16 | Composite Income Tax Rate (Line 7 + Line 10) | | | 0.000000% |
| 17 | | | | |
| 18 | Common Equity Gross-up (Line 16 / (1 - Line 16)) | | | 0.000000% |

b. Using the table in 5.a., provide the calculation of the GRCF including a 21 percent FIT rate.

6. Using the table below, calculate the weighted average cost of capital (“WACC”) with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

| Component of Capitalization | Average Weighted Cost | Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate | | Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate | |
|-----------------------------|-----------------------|--|-----------|--|-----------|
| | | Equity Gross-up | Adj. Cost | Equity Gross-up | Adj. Cost |
| Short-Term Debt | | | 0.00% | | 0.00% |
| Long-Term Debt | | | 0.00% | | 0.00% |
| Preferred Stock | | | 0.00% | | 0.00% |
| Common Equity | | | 0.00% | | 0.00% |
| Total Capitalization | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% |

7. Refer to the Wesolosky Testimony, page 10, where Mr. Wesolosky explains that Delta is using the “Reverse Georgia Method” to amortize its excess accumulated

deferred income taxes (“ADIT”) because Delta’s property records do not have the detail sufficient to calculate the excess ADIT amortization under the average rate assumption method (“ARAM”). Provide the work papers, assumptions, and calculations that Delta used to estimate the remaining life of its utility assets of 21 years.

8. Refer to the Wesolosky Testimony, Schedule MDW-3, Measurement of Deferred Taxes.

a. MDW-3 is an itemized list of Delta’s ADITs. The Tax Cuts and Jobs Act (“TCJA”) separates the excess ADIT into two categories, protected and unprotected. For each deferred tax listed on the schedule, identify if Delta considers it to be “protected” or “unprotected” and include an explanation for Delta’s position for each deferred tax.

b. For the unprotected, excess ADIT identified in the response to Item 8.a., explain why an amortization period of 21 years is appropriate and provide the remaining regulatory life of each asset, property and account that gave rise to the protected excess ADIT.

c. Delta states that it estimated excess ADIT using September 30, 2017 balances that will be updated when the December 31, 2017 tax return is filed. Update the schedules using the ADIT estimates as of December 31, 2017.

9. Using Delta’s responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|----------|---|-----------------------------|-----------------------------|----------------|
| 1 | Net Investment Rate Base | | | |
| 2 | Returns Adjusted For Income Taxes | | | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | \$ - | \$ - | \$ - |
| 5 | | | | |
| 6 | Amortization Of Excess ADIT (Protected) - Using Aram | | | |
| 7 | Amortization Of Excess ADIT (Unprotected) | | | |
| 8 | | | | |
| 9 | Total Amortization Of Excess ADIT (Line 6 + Line 7) | | - | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate | | | |
| 11 | | | | |
| 11 | Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10) | | | - |
| 12 | | | | |
| 13 | Total Reduction In Revenue Requirements (Line 4 + Line 11) | | | \$ - |

If Delta lacks sufficient information to apply the ARAM method, as previously indicated, please instead use the Reverse South Georgia Method to calculate the amortization of excess protected ADIT in Line 6 of the above table. If estimates and assumptions were made to calculate the amounts identified in response to this Request, please identify and describe any and all estimates and assumptions.

10. Using Delta's responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|----------|---|-----------------------------|-----------------------------|----------------|
| 1 | Capitalization | | | |
| 2 | Returns Adjusted For Income Taxes | | | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | \$ - | \$ - | \$ - |
| 5 | | | | |
| 6 | Amortization Of Excess ADIT (Protected) - Using Aram | | | |
| 7 | Amortization Of Excess ADIT (Unprotected) | | | |
| 8 | | | | |
| 9 | Total Amortization Of Excess ADIT (Line 6 + Line 7) | | - | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate | | | |
| 11 | | | | |
| 11 | Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10) | | | - |
| 12 | | | | |
| 13 | Total Reduction In Revenue Requirements (Line 4 + Line 11) | | | \$ - |

11. Refer to the Wesolosky Testimony, Schedule MDW-1, Calculation of Customer Rate Reduction. Provide an updated schedule to reflect the actual revenues recorded in 2017 by customer class.

12. Explain whether any of Delta's affiliates have resolved or are in the process of resolving the impact of the TCJA on rates in other states. If so, provide the amortization period(s) established for the unprotected excess ADIT.

13. Provide schedules reflecting both a 5-year and 15-year amortization period for Delta's unprotected excess ADIT and the impact each amortization period would have on Delta's revenue requirement.

14. Explain whether any of the expenses charged to Delta by its affiliates in the test year contain any FIT implications. If so, state whether Delta addressed the impacts on its revenue requirements. If not, provide the impact of the FIT implications on Delta's test-year expense and revenue requirement.

15. State whether Delta has received any letter or written opinion from the Internal Revenue Service since January 1, 2010 regarding the treatment of Delta's excess ADIT and, if so, provide a copy of the letter or written opinion.

16. Provide any letters or written opinions prepared by the Internal Revenue Service and relied on by Delta or its agents to calculate Delta's excess ADIT or to determine how the excess ADIT may be reimbursed to ratepayers under federal tax law, regardless of whether those letters or written opinions were prepared for or at the request of Delta.

17. Provide Delta's fiscal year if different from the calendar year ending December 31, 2017, and identify and describe any effect that a non-calendar fiscal year has on the calculation of excess ADIT.

18. Provide copies of all schedules provided in the responses, supporting calculations, and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

Gwen R. Pinson

Gwen R. Pinson
Executive Director
Public Service Commission
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DATED MAR 13 2018

cc: Parties of Record

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